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U. S. COTTON TEXTILE IMPORTS

PERSPECTIVE ON A COMPLEX PROBLEM

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FOREWORD

The subject of this publication has captured the attention of an increasing number of people within the U.S. Government, in U.S. industry circles, and in international groups. The Department of Agriculture is directly concerned with the use of U.S. cotton, both at home and abroad, and consequently has an immediate interest in U.S. cotton textile imports and decisions affecting this trade.

Much of the material covered by this report was originally prepared for a paper that was presented at the 39th Annual National Agricultural Outlook Conference held in Washington in November 1961.

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CONTENTS

	Page
Introduction	3
Groups having a stake in U.S. textile imports	4
Cotton growers	4
Cotton merchants	4
Manufacturers of cotton textiles	5
Importers	5
Labor	5
Consumers	6
Foreign cotton textile producing countries	6
Buildup of the problem:	7
Volume, source, and types of goods imported	7
Role of Japan--special problems and special solutions	8
Imports from other countries after the "voluntary" agreements	9
Recent attempts to meet the problem	10
Senate Resolution 236	10
Section 204 of the Agricultural Act of 1956	11
First Pastore committee hearings and report	11
National Cotton Council's petition and its disposition	11
Negotiations with Hong Kong	11
Second Pastore committee hearings and report	12
President's seven-point program	12
Petition of the industry to OCDM	12
Geneva conferences	12
New bilateral agreement with Japan	13
New depreciation schedule for textile machinery	13
Request for Section 22 investigation	13
Cotton textile imports in 1961	14
Possible future developments	14

U. S. COTTON TEXTILE IMPORTS
Perspective on a Complex Problem

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Introduction

U. S. import and export trade in textiles made of cotton, wool, manmade fiber, and silk is big business, running over a billion dollars annually. Traditionally, the United States has exported far more textiles than it has imported, but the relative importance of imports and exports varies considerably by fiber. For example, imports of wool and silk textiles substantially exceed their exports. Exports of man-made fiber products have always exceeded their imports. The United States has traditionally exported more cotton textiles than it has imported, but in 1960, this relationship changed, when imports exceeded exports. This reversal was the culmination of a long chain of developments and caused increased concern to spread throughout the U. S. cotton textile industry and the U. S. Government.

Early in the history of this Nation, imports were a lifeline to the "Old World," and they remain important in many fields. Basically, there are only two reasons why countries import at all. The first is to procure an item that is otherwise unavailable or in short supply domestically. For the United States, examples of this kind of import are diamonds, coffee, bananas, chromium, silk, and cashmere. The second reason is to procure items for which there is a price differential so substantial that it can overcome the combined costs of export and import handling, transportation, and tariff barriers. Examples of this kind of import are oil, steel, and certain textiles.

Cotton textiles are imported into the United States for both basic reasons. Of late, the more overriding has been the price disparity between foreign and domestic textiles. Because of the U. S. Government's raw cotton export payment program, prices at which foreign mills can purchase U. S. cotton are several cents under the prices paid by U. S. mills, even after export costs are added. Foreign labor costs, although they vary considerably by country, are substantially below labor costs in the United States. These cost advantages, when added to the high productivity of some foreign plants, particularly Japan, have resulted in prices that can easily surmount U. S. tariffs on cotton textiles. These tariff rates on most cotton textile items remain in the 10 to 35 percent range, although they were reduced from much higher levels by means of negotiations under the trade treaty called the General Agreement on Tariff and Trade, in which the United States participates under the authority of the Trade Agreements Act.

The complexity of the "textile import problem" is as real as it is apparent. It is perhaps because of many legitimate but conflicting interests that this problem has defied solution in the past. At one extreme are opinions that with Administrations committed to a policy of trade expansion, universal tariff reductions are in order and any protectionist moves are intolerable. Others contend that within the framework of a liberal trade policy, reductions in most tariffs, stability in some, and increases in others are compatible. It has also been argued that the general objectives of a liberal American trade policy should not be considered impaired even though some form of protection is granted the textile industry, which is suffering from technological changes, rising foreign competition, and changing patterns of consumption. Within U.S. Government circles, many of these points of view are represented.

TABLE 1.--United States foreign trade in textiles, 1960

Type of textiles	Imports	Percentage of total imports	Exports	Percentage of total exports	Total foreign trade	Percentage of total foreign trade
Value:	*Million dollars*	*Percent*	*Million dollars*	*Percent*	*Million dollars*	*Percent*
Cotton.....	253.3	40.7	236.4	46.4	489.7	43.3
Wool.....	221.6	35.7	8.2	1.6	229.8	20.3
Manmade fibers.	74.5	12.0	261.2	51.3	335.7	29.7
Silk.....	72.0	11.6	3.5	.7	75.5	6.7
Total.....	621.4	100.0	509.3	100.0	1,130.7	100.0
Quantity:	*Million pounds*		*Million pounds*		*Million pounds*	
Cotton.....	255.6	59.7	233.1	64.5	488.7	61.9
Wool.....	132.1	30.8	4.7	1.3	136.8	17.3
Manmade.....	31.1	7.3	122.9	34.0	154.0	19.5
Silk[1].....	9.3	2.2	.6	.2	9.9	1.3
Total.....	428.1	100.0	361.3	100.0	789.4	100.0

[1] Estimated.

U. S. Department of Commerce, Bureau of the Census, United States Imports of Domestic and Foreign Merchandise, F. T. 110, and United States Exports of Domestic and Foreign Merchandise, F. T. 410.

Groups Having a Stake in U. S. Textile Imports

Textile imports by the United States are many things to many people, and of necessity, different things to the several groups having a direct and major interest in cotton textile imports into the United States.

Cotton Growers.--One of the important groups interested in cotton textile imports, and certainly a group in which the Department of Agriculture has a vital interest, is the cotton growers of this country. For a long time, export markets for raw cotton greatly overshadowed the domestic market in importance; in fact, it was not until the late 1930's that an unmistakable pattern of domestic raw cotton consumption higher than export shipments emerged. But now the cotton growers' largest single market for their raw cotton is the domestic market, consuming between 8 and 9 million bales annually. However, cotton growers produce 6 or 7 million bales in excess of this level, and they are therefore dependent upon export markets to absorb the quantity of cotton grown beyond domestic needs.

Cotton Merchants.--U. S. cotton exporters, practically synonomous with U. S. cotton merchants, form another group having a major interest in cotton textile imports. The exporters' interests are somewhat parallel to those of the growers. The growers and merchants know that in order to maintain their domestic sales of raw cotton, it is essential that the cotton textile industry of this country continue in a strong position; they also understand that restrictive measures toward cotton textile imports could adversely affect their markets abroad for raw cotton. Furthermore, both farmers and cotton merchants know that a sizable share of the cotton contained in imported textiles

is of non-U. S. origin and competes directly with their domestic business. Of course, the percentage of U. S. cotton varies greatly between countries, from well over 90 percent for Taiwan and South Korea to zero in the case of Egypt, where none is used. Despite the division of their loyalties between domestic and foreign customers, the growers and merchants, joined by the ginners, warehousemen, seed crushers, and spinners, as represented by the National Cotton Council, petitioned the Secretary of Agriculture in June 1959 for relief from the "unreasonable and intolerable handicap" which the domestic manufacturers of cotton textiles face as they "strive to defend the home market against foreign competition."

Manufacturers of Cotton Textiles.--The attitude of U. S. manufacturers of textile products concerning textile imports is clear-cut. While representatives of the U. S. industry are the first to admit that many problems exist within the industry to which it must find answers, they claim that the expanding volume of imports has placed them at a serious disadvantage in view of their higher costs. In testimony before the Pastore committee,[1] the manufacturers claimed that the "disruptive effect of substantial and increasing volumes of imported textiles has been felt in virtually every sector of the United States textile market," and that although imports were a relatively small percentage of the domestic market, they depressed the domestic price structure out of proportion to their volume, in view of the finely balanced position between production and demand in this country.

In May 1961, 10 textile manufacturing groups, representing all segments of the industry, pushed forward their campaign for protection from imports with an appeal to the Office of Emergency Planning (formerly the Office of Civil and Defense Mobilization, otherwise known as OCDM) in which they asserted that "textiles and textile manufactures are being imported under such circumstances as to threaten to impair the national security." Although U. S. textile producers have contended that textile imports were ruining their business with unfair competition, integrated textile producers have themselves imported large quantities of goods in order to meet the acutely competitive price levels of the goods imported by others.

Importers.--Another group having much at stake in cotton textile imports is the importers themselves. They claim that it is to the national interest and in furtherance of U.S. foreign policy that an easy flow of trade be permitted, and that, in order to sustain a high export level for commodities in which the United States has a competitive advantage, this country must also import. Importers contend that the competitive forces attracting American buyers to imported goods are an inevitable part of the free enterprise system under which Americans choose to live. Undoubtedly, one of the main reasons for the large increase in textile imports was the aggressive buying of U.S. importers and not solely the aggressive selling of foreign suppliers, as some people might suppose. Since foreign supplies constitute the foundation of the importers' business, interference with the forces of supply and demand in international textile trade is not to their liking.

Labor.--Another group having a direct interest in imports is American labor, especially those working in the U. S. textile industry. Employment of production workers in the textile industry as a whole totaled more than 1.1 million in 1947. Employment dropped to around 800,000 by 1958, a decrease of about 28 percent in 11 years. While some of this decrease in employment is undoubtedly attributable to import competition, it has been estimated by the chairman of the New England Governors' Textile Committee that the loss of employment from increased productivity has been at least three times as large as the loss from rising imports. Labor does not blame all of its woes on imports, recognizing the many other factors that have contributed to the textile industry's failure to participate fully in the growth of the American economy in the past 30 years. Labor has claimed, however, that the sharp rise in imports has seriously aggravated the industry's problems. As a consequence, labor has requested protection against imports produced by workers abroad whose pay scales are a small fraction of theirs, has suggested

[1] U.S. Senate, Interstate and Foreign Commerce Committee, Special Subcommittee on the Domestic Textile Industry, established pursuant to Senate Resolution 287, 85th Congress, 2d Session.

fair labor codes for commodities in international trade, and has urged wage adjustments that reflect changes in productivity. This attitude on the part of labor is a modification of its traditional role as an advocate of free trade.

Consumers.--American consumers, of course, constitute another group having a substantial interest in textile imports. To the consumer, an import can be many things -- something that is cheaper than a similar domestic item; an item that is new, unusual, of special design, or otherwise different from those available from domestic sources; something that adds to the variety of goods from which to select; or perhaps something having special appeal because it carries a foreign label. All Americans are consumers, but some consumers also fall into other interest groups -- cotton farmers, textile workers, textile manufacturers, importers, exporters, etc. Therefore, in many instances, consumers also have divided loyalties, from the realization on the one hand that imported goods offer certain personal advantages and on the other hand that they might cause some undesired results.

Foreign Cotton Textile Producing Countries.--Beyond the shores of the United States there are foreign business firms and governments that have a very substantial interest in U.S. imports of textile goods because of an urgent need to sell into foreign markets. For commercial firms, exporting represents a means of doing more business than if sales were limited to domestic customers. From the standpoint of governments, however, the urgency arises out of the desire to earn foreign exchange with which their citizens can purchase much-needed goods from abroad that cannot otherwise be obtained. In some countries, production for export is also an important factor in full employment.

Standing in a unique position is Japan, the second or third largest foreign customer of the United States, and the largest importer of raw cotton. Japan is a nation with an unbalanced economy, lacking naturally the raw materials and many other goods needed to support itself. It must export in order to import the goods that are basic to its survival. Japan has been an important textile exporter to the United States for almost 30 years; and despite its markets elsewhere, needs the United States as an outlet, especially since some European markets have been virtually closed to Japanese goods. About 15 percent of Japan's cotton textile exports have been shipped to the United States in recent years. Conversely, the United States needs Japan not only as an ally, but as a customer for many commodities, not the least of which is raw cotton. The Japanese textile industry has much at stake in U. S. imports.

A more recent supplier of textiles to the United States is Hong Kong. The flight of capital and population from Mainland China contributed to Hong Kong's unique economic position, although capital and know-how from other sources helped expand the textile industry in more recent years. The influx of refugees has depressed the labor market; consequently labor costs are low compared with Western and even Japanese standards. Against this background, Hong Kong has built a textile industry and become a textile exporter since the close of World War II. Although Commonwealth countries are of primary importance as customers, Hong Kong also looks to the United States as an important market for textiles; and the United States looks to Hong Kong as a Western-oriented outpost on the edge of a Communist domain, and as a good market for many U. S. products, not the least of which is cotton.

Some of the less developed countries of Asia have recently become important textile suppliers to the United States, particularly South Korea, Taiwan, the Philippines, and Pakistan. The development of a textile industry in such countries has been one of the first steps away from a completely agrarian economy. In practically all such countries, textile capacity in excess of effective demand has been developed. This expansion has been justified in government and business circles on the basis of foreign exchange earnings of textile exports.

India, Spain, Portugal, and Egypt have also recently expanded textile shipments to the United States. While textile production and textile exports are not new to these countries, their products have entered the U. S. market in volume during recent years.

Again, there is productive capacity in excess of effective domestic demand. Exports therefore may represent the difference between a profitable and an unprofitable enterprise to the producers in these countries, and exports are often an urgent objective of their governments as well. The United States maintains a serious interest in the stability of these countries; and to them, the United States has of late become an important outlet for a part of their textile production.

TABLE 2.--Cotton textiles: Raw cotton equivalent of United States exports and imports, average 1934-38, annual 1950-60

Year	Exports	Imports	Export balance[1]
	1,000 bales	*1,000 bales*	*1,000 bales*
Average, 1934-38.....	238.0	100.6	137.4
Annual:			
1950.....	538.8	83.4	455.4
1951.....	809.7	70.7	739.0
1952.....	703.9	67.5	636.4
1953.....	606.7	92.8	513.9
1954.....	604.5	101.0	503.5
1955.....	547.5	181.2	366.3
1956.....	530.4	225.0	305.4
1957.....	579.1	199.1	380.0
1958.....	521.0	233.8	287.2
1959.....	492.6	360.0	132.6
1960.....	485.6	525.5	-39.9
January-September:			
1960.....	359.0	418.8	-59.8
1961.....	372.4	283.3	89.1

[1] Minus sign indicates imports greater than exports.

U. S. Department of Agriculture, Agricultural Marketing Service, The Cotton Situation, No. 196, September 1961.

Buildup of the Problem

Volume, Source, and Types of Goods Imported.--Ten years ago, when many of the world's textile exporting countries were still recovering from World War II, U. S. imports of cloth and made-up goods of all fibers were a negligible proportion of domestic production. But this situation has gradually changed, so that in the intervening years imports of certain textile products have assumed greater and greater proportions of the market for these products in the United States.

Cotton textiles are the largest single category of textile imports, amounting to about 60 percent by volume and about 40 percent by value in 1960. Before the rise of Japan as a supplier to this market in the mid-1930's, U. S. imports of textile products were concentrated on specialty items rather than on the full range of textile goods. In the field of cotton textiles, these specialty goods included such items as sewing thread from the United Kingdom; tapestries from Italy and Belgium; household linens from the United Kingdom; and fine, bleached, and printed goods from Switzerland and the United Kingdom. The cotton equivalent of imported cotton textiles averaged about 2 percent of U.S. mill consumption annually during the 1934-38 period, less than one percent from the close of World War II until 1953, 2.5 percent by 1956, 4.0 percent by 1959, and about 6.0 percent in 1960. It is the development of this situation that has precipitated the present interest in the cotton textile import problem.

The Role of Japan--Special Problems and Special Solutions.--About three decades ago, traditional imports of cotton specialty items by the United States were overshadowed by the rapid expansion of imports from Japan. These rose from 800,000 square yards in 1931, out of total imports of around 30 million to, more than 7 million square yards in 1934, out of a total of 40 million. Japan thus became the largest supplier of imported cotton textiles to the United States, replacing Switzerland, which had several years earlier replaced the United Kingdom. From 1935 to the outbreak of the war in the Pacific in 1941, more than 70 percent of the volume of U.S. cotton cloth imports came from Japan, although in value these goods represented only 35 percent of the total.

The effect of the Japanese shipments upon the U.S. cotton textile industry was sharpened by the concentration of shipments in a few standard lines, particularly print cloths and sheeting, most of it bleached and much of it low quality. Furthermore, Japanese goods were available at a lower price than domestically produced merchandise of similar quality, an advantage that was magnified in the early years of the depression by the devaluation of the yen in relation to the dollar. The average import value of Japanese goods in the years 1934-41 was 4 to 5 cents per yard.

Imports of cotton goods increased so substantially in 1935 that the U.S. Senate directed the Tariff Commission to investigate the differences in cost of production between domestic producers and producers in the major supplying country, which was Japan. As a result of these investigations, the President in May 1936 ordered increases in tariffs on medium and coarse cotton cloth amounting to about two-fifths over the existing rates, which averaged 27 percent. These duty increases, however, had little apparent effect on the level of imports from Japan, as shown by the following data:

Year	Imports
	Million sq. yd.
1931	0.8
1932	.8
1933	1.1
1934	7.3
1935	36.4
1936	77.0
1937	106.2

Late in December 1936, a U.S. textile industry mission left for Japan to work out some modus vivendi with the Japanese industry. This mission, led by the head of the Cotton Textile Institute representing the cotton textile industry, reached an agreement with the Japanese to limit 1937 shipments to 155.0 million yards, an amount contracted for in the first 3 weeks of the year. In 1937, imports actually reached only 106.2 million square yards, although this was the pre-World War II peak. The agreement also provided for the Japanese to cut 1938 shipments to 100.0 million yards, but imports dropped precipitously to 33.6 million square yards, largely because of the effects of lower prices and the recession of economic recovery in the United States. Imports reached almost 82.0 million square yards in 1939, but gradually fell off until the outbreak of the war in the Pacific. Although the industry-to-industry agreement had questionable legal status under the antitrust laws, it was extended to 1939, but was allowed to lapse in 1940.

After World War II, Japan again gradually developed a cotton textile market in the United States, but this time with goods of higher quality than in the prewar era. Cotton textiles imported from Japan rose from an annual value of about $10 million in 1934-38 to around $12 million in both 1951 and 1952, and then to almost $60 million in 1955. This increase in textile shipments was again characterized by concentration in a relatively few items; disruption of the domestic market for those items led the U.S. industry to fear disruption for others. Accordingly, the industry began to seek protection by various means. Several States enacted legislation directed against Japanese textiles; boycott movements appeared; and legislation was introduced in the Congress which, if it had been enacted, would have imposed quotas on Japanese textiles.

In an attempt to mollify this rising protectionist movement in the United States, the Japanese cotton industry unilaterally imposed and enforced quotas on exports to the United States for cotton fabrics and blouses for the year 1956. The fabric quota, with separate limitations for velveteens, print cloths, and ginghams, totaled 150 million yards, and the blouse quota 2.5 million dozen.

As the year unfolded, Japanese textiles -- especially the uncontrolled items -- continued to be imported at unprecedented rates. During the first half of 1956 the U.S. industry filed "escape clause" actions with the Tariff Commission for velveteens, pillow cases, ladies' blouses (some of which were available at retail prices of $1.00, considerably under the price of comparable domestically made blouses), and ginghams. The industry eventually withdrew its "escape clause" applications on blouses and ginghams and the Tariff Commission recommended no modification of the tariff rates on pillow cases. The Commission did, however, recommend that the President modify the tariff concessions on velveteens.

During this time the U.S. and Japanese Governments worked together in an effort to develop a mutually satisfactory quota system to cover all categories of cotton textile exports from Japan to the United States for the year 1957. A so-called "voluntary" agreement was evolved that called for a quota of 235 million square yards. It included made-up goods, knit goods, and other cotton textile products as well as cotton piece goods. At about the same time, Italy, another major source for velveteens, also took action for the "voluntary" limitation of exports to the United States, to a level of 1,375,000 yards for the year 1957. This arrangement has remained in effect. The President announced that in view of these "voluntary" controls, no action would be taken upon the Tariff Commission recommendation on velveteens. The bilateral agreement with Japan has undergone a series of revisions, the latest in September 1961.

Imports From Other Countries After the "Voluntary" Agreements. --The institution of the "voluntary" export program on all cotton goods by Japan and on velveteens by Italy in 1957, the high level of demand in the United States, and the effective control of the volume of goods from the major supplier to the United States provided the environment for increased imports from other sources. As a consequence, beginning in 1957, cotton textiles came into the United States in unprecedented volume from countries that were not previously important suppliers on the world market. Imports from these sources totaled $3.6 million in 1956, and 4 years later had risen to $108.1 million, more than 40 percent of total cotton textile imports, although Japan continued to maintain the position of leading supplier. These newer suppliers to the U. S. market were, in order of importance in 1960, Hong Kong, India, Portugal, Spain, Egypt, Taiwan, South Korea, Okinawa, Pakistan, and Israel. This is the basis for the charge by the Japanese that their self-restraint has benefited their competitors without relieving the pressure of imports on the U.S. market.

U. S. cotton textile imports from all sources in the period 1934-38 averaged $39.7 million annually; in 1954, they totalled $76.2 million; in 1955, $123.8 million; and in 1960, they reached $253.5 million. Of course, during this period, there has been a considerable change in the value of the dollar, but even in terms of constant dollars, imports more than quadrupled from 1934-38 to 1960.

The cotton equivalent of 1960 imports represented about 6.0 percent of domestic mill consumption. Imports represented a much higher ratio to total U.S. production for some items than they did for others. For example, in 1960, very small quantities of hose and men's and boy's undershirts and briefs were imported, but should the American consumer have purchased carded gingham garments or carded gingham piece goods, chances would have been better than fifty-fifty that the fabric would have been imported. While carded gingham represents an extreme case, the incidence of imports against domestic production was very high for certain other fabrics and some types of made-up goods such as handkerchiefs, table damasks, certain sport clothes, and other wearing apparel. Certain classes of cotton goods showed very large increases in import volume

from 1959 to 1960. This was particularly true of cotton yarn, for which imports expanded from 1.5 million pounds to 17.2 million pounds, and cotton fabrics, which rose from 62.3 million pounds to 123.3 million pounds. In the cloth category, the increases were largely in cotton grey goods, which were imported to be finished in this country. Dress shirts, blouses, blouse and skirt sets, and robes also showed very large increases in the made-up goods group. Statistics show that in 1960, for the first time in 45 years, U.S. imports of cotton products exceeded exports.

TABLE 3.--Cotton textiles:[1] Value of United States imports from major suppliers,[2] average 1934-38, annual 1954-60

Country	Average 1934-38	1954	1955	1956	1957	1958	1959	1960
	Million dollars	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*	*Million dollars*
Japan	8.9	23.1	59.7	83.9	65.8	71.4	76.8	73.1
Hong Kong	(3)	.1	.4	.7	5.8	17.3	45.8	63.5
Philippine Republic	4.7	12.5	13.7	13.1	11.3	10.6	12.0	13.3
Italy	2.6	5.3	8.0	8.5	8.6	8.3	10.8	10.4
India	.2	.3	.6	1.3	.7	.9	4.4	8.7
United Kingdom	6.6	9.0	10.4	12.0	10.0	10.1	10.1	8.6
France	2.9	5.4	6.6	5.6	5.6	4.5	5.7	8.6
Portugal	(3)	.1	(3)	(3)	.1	.3	1.0	8.6
Germany, West	[4] 3.7	3.0	4.3	6.3	5.8	6.4	7.2	8.4
Spain	(3)	.1	.1	.3	.3	.4	1.6	8.4
Switzerland	1.7	5.9	6.1	6.2	5.5	6.0	7.1	8.0
Egypt	(3)	.1	.2	.4	.5	.3	.4	6.9
Belgium	3.3	5.5	6.2	6.0	6.7	5.2	6.3	6.3
Taiwan	---	---	(3)	---	(3)	.1	2.0	3.6
Korea, South	---	.3	---	---	(3)	.8	1.4	2.3
Okinawa	---	---	---	---	(3)	.3	1.1	2.2
Pakistan	---	---	---	.1	---	---	.9	2.0
Israel	---	.3	.6	.8	1.1	1.5	2.1	1.9
Netherlands	.5	1.2	1.6	2.2	1.8	2.0	1.9	1.8
Austria	.4	.9	1.0	1.4	1.3	1.4	1.5	1.7
Other	4.2	3.1	4.3	5.9	5.8	2.3	2.4	5.2
Total	39.7	76.2	123.8	154.7	136.7	150.1	202.5	253.5

[1] Includes all cotton semimanufactures and cotton manufactures, as reported by the Bureau of the Census, except cotton waste and other nontextile items in these subgroups; does not include certain miscellaneous textile items containing cotton, such as body-supporting garments, elasticized fabric, rubberized cloth, waterproof cloth, coated and filled cloth, machine belts and belting, which are not included in these subgroups by the Bureau of the Census.
[2] Major suppliers were selected on the basis of the 20 largest in 1960.
[3] Less than $50,000.
[4] Prewar Germany.

U.S. Department of Commerce, Bureau of the Census, U.S. Imports of Domestic and Foreign Merchandise, F. T. 110.

Recent Attempts To Meet the Problem

During the course of the past few years, the U.S. Government and the U.S. textile industry have taken a number of actions in attempts to meet this highly complex problem.

Senate Resolution 236.--In 1956, growing Congressional interest in the cotton textile problem was evident in a resolution proposed by the Senate Committee on Finance. This proposal would have directed the Tariff Commission to make an immediate investigation to determine whether textile imports were causing or threatening serious injury to the domestic industry.

It became apparent that staff limitations of the Tariff Commission made compliance with a request of such magnitude virtually impossible. As a consequence, an amended resolution was passed by the Senate which charged the Tariff Commission with the responsibility of expediting "escape clause" actions on textile products and giving priority to them whenever practicable.

Section 204 of the Agricultural Act of 1956.--The mood of Congress during the year 1956 concerning imports was also reflected in a new legislative provision, section 204 of the Agricultural Act of 1956. This section, known as "Agreements Limiting Imports," authorized the President to negotiate with representatives of foreign governments in an effort to obtain agreements limiting imports of agricultural commodities or products manufactured therefrom, including textiles. The President was also authorized to issue regulations governing the entry or withdrawal from warehouse of any commodity to carry out any such agreement. This law affords the main legal basis for the textile agreement negotiated in 1961.

First Pastore Committee Hearings and Report.--Another manifestation of government interest came from a Senate resolution of the 2nd session of the 85th Congress that authorized a subcommittee of the Senate Committee on Interstate and Foreign Commerce "to conduct a full and complete study of all factors affecting commerce and production in the textile industry of the United States," including the extent, nature, and causes of the decline in interstate and foreign commerce in textile mill products. Throughout the second half of 1958, extensive hearings were conducted by this special Senate subcommittee, known as the Pastore committee, and a report was issued in early 1959. The committee recommendations that bore directly upon foreign trade were (1) that in the administration of our foreign trade program, every effort should be made to channel imports into those markets that can most easily absorb production from abroad, and that an effort be made to avoid further losses to the domestic textile industry; and (2) that quotas by specific categories should be established which would permit foreign producers of textile products to sell in our markets within limits that will not further endanger existing textile capacity.

National Cotton Council Petition and Its Disposition.--Against this background, in June 1959 the National Cotton Council filed a petition to the Secretary of Agriculture for "appropriate action" against injury to the Department's cotton programs from import competition under section 22 of the Agricultural Adjustment Act of 1938 as amended. After preliminary investigation, the Secretary advised the President that there was reason to believe that cotton in articles containing cotton was being, or practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with the Department's export program for cotton and cotton products. This conclusion was based upon the premise that the export payment, equivalent to 8 cents per pound on cotton and the cotton content of cotton products, was, in effect, a loss to the Commodity Credit Corporation to the extent that cotton in the form of cotton products was imported into the United States, and that the purpose of the raw cotton export program was thereby impaired. The President then directed the Tariff Commission to conduct hearings to determine whether an import fee equivalent to the per pound export payment rate in raw cotton was necessary to prevent such interference.

After extended hearings and the filing of briefs and counterbriefs by opposing groups, the Tariff Commission ruled in June of 1960 that cotton textile imports were not jeopardizing the export program of the Department. The President concurred in this finding.

Negotiations With Hong Kong.--Imports of cotton textiles from Hong Kong rose at such a rapid pace between 1956 and 1959 that they became the target of special concern by the U.S. Government. Several attempts were made by government officials in 1959 and early 1960 to arrive at a mutually acceptable agreement with Hong Kong for the control of cotton textiles exported to the United States. The initial offer of one group within the Hong Kong cotton textile industry was to control exports of cotton garments at levels which exceeded previous annual shipments and included escalator provisions for annual

increases. This offer was unacceptable to both U.S. industry and government, not only because of the levels of the quotas suggested, but because the offer did not include cotton piece goods as well as cotton garments. The divergence of opinion within Hong Kong's industry and the apparent impossibility of bringing U.S. and Hong Kong views together resulted in an impasse. Consequently, no agreement was concluded, although sporadic efforts continued on a bilateral basis until well into 1961.

Second Pastore Committee Hearings and Report. --In February 1961, the Pastore committee again held hearings in order to bring the findings of the earlier investigation up to date. In its supplementary report issued in March 1961, the subcommittee noted its "disappointment that so few of the earlier recommendations had been acted upon," and reiterated its recommendation that "quotas on textile mill products, and on garments and apparel, and on manmade fiber staple, filaments, and filament yarn, be established by country and by category of product." The subcommittee report further noted that imports into this country should be allowed to increase only as the market in this country grows.

The interest of consumers was a subject for special comment in the subcommittee report. The report expressed the opinion that, in view of the market structure in textiles, which is characterized by aggressive price competition, the consumer would not suffer from the regulation of international trade in textile mill products. The subcommittee envisioned that a substantial volume of foreign textile products would be permitted to enter the country under the proposed quotas and that the lower prices of these goods compared to domestically produced textiles would "continue to affect domestic prices as they have in the past."

President's Seven-Point Program. --Further recognition of the textile industry's problems came from the Executive Branch of the government, when, on May 2, 1961, the President announced a seven-point program of assistance for the cotton textile industry. The program encompassed the following points: An expanded government program of research; a review of tax depreciation allowances on textile machinery; assistance in financing modernization of equipment; a study aimed at the elimination or offsetting of the adverse differential in raw cotton costs between domestic and foreign textile producers; and assistance to industries threatened with serious injury from imports. In addition, the President directed the Department of State to arrange for calling an international conference of the principal textile exporting and importing countries for the purpose of seeking an international understanding to provide a basis for trade that would avoid "undue disruption." The President also pledged careful consideration of any application by the textile industry for action under existing statutes.

Petition of the Industry to OCDM. --The textile industry responded to this encouragement on May 15, 1961, by the filing of an application with the Office of Civil and Defense Mobilization for an investigation, under section 8 of the Trade Agreements Extension Act of 1958, to determine whether textiles and textile manufactures were being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. Ten organizations representing practically every segment of the U. S. textile industry joined for the first time in a united effort. As of late November 1961, this investigation was still pending with the Office of Emergency Planning, as OCDM is now called.

Geneva Conferences. --As one aspect of the President's seven-point program, the U.S. Government requested the General Agreement on Tariffs and Trade to call a conference of textile importing and exporting nations to work out some cooperative and constructive action relating to world trade in textiles. The objective of the 16-nation conference held in Geneva in July 1961 was to deal with trade problems in such a way as to provide growing export opportunities for textiles in a reasonable and orderly manner. Short-term arrangements were agreed upon which were designed to increase access to markets where imports are at present subject to restriction, to maintain orderly access to markets where restrictions are not at present maintained, and to secure from exporting countries, where necessary, a measure of restraint in their export policy so as

to avoid disruptive effects in import markets. A safeguard for importing countries contained in the agreement provided that in a disruptive situation importing countries could call for restraint by an exporting country in any of the 64 categories of cotton textiles at levels not lower than that prevailing in the 12-month period ending June 30, 1961. Failing to obtain agreement under such circumstances, the importing country could take unilateral action.

A Cotton Textile Committee was established under the long-term arrangements and charged with the responsibility of making recommendations by April 30, 1962, on a long-term solution to the problems in the field of cotton textiles, based on the guiding principles of the agreement. Late in October 1961, a provisional committee met in Geneva to consider the long-term arrangement and the means of accomplishing the objectives. The Committee considered measures for liberalization by countries still restricting imports; provisions relating to market disruption; bilateral arrangements; provisions to prevent circumvention by nonparticipating countries, transshipment, and substitution of directly competitive materials; and the duration of the arrangement, which had been suggested for periods varying from 3 to 5 years. For the purpose of working out the details of the long-term arrangements, a technical subcommittee and a statistical subcommittee were established.

New Bilateral Agreement with Japan. --The five-year "voluntary" agreement that Japan undertook beginning on January 1, 1957, with respect to exports to the United States, was scheduled to expire at the end of 1961. Within the framework of the Geneva arrangement, this bilateral agreement was renegotiated by the United States and Japan late in the summer of 1961. At 275 million square yards for the year 1962, the new arrangement provides for an increase amounting to 17 percent over the original quota and 7.5 percent above the 1961 quota. It also provides for a number of specific quotas for "sensitive" items and for certain other mutually acceptable adjustments.

New Depreciation Schedule for Textile Machinery. --On October 11, 1961, the President announced a new depreciation schedule by the Internal Revenue Service, whereby textile companies will be allowed to write off the cost for tax purposes of certain new textile machinery over a shorter period than before. Much of the machinery will be written off in 15 years or less compared to the previous provisions of 25 years. The White House announcement indicated that the move "will be of significant help to the industry in enabling it to modernize, meet foreign competition and provide jobs." This represents the fulfillment of one of the provisions of the President's seven-point program.

Request for a Section 22 Investigation. --On November 21, the President, at the request of the Secretary of Agriculture, asked the Tariff Commission to conduct an investigation, under section 22 of the Agricultural Adjustment Act of 1938, as amended, to determine whether imports of cotton in the form of cotton products are interfering with the programs of the Department of Agriculture. This request differed from the 1959 request in alleging that interference was not confined to the Department's export programs, but included the cotton price support, acreage allotment, and other programs as well. The President also asked the Tariff Commission to determine whether an import fee on the cotton content of imported cotton goods should be imposed in an amount equal to the existing export subsidy rate on raw cotton in order to prevent interference with the agricultural programs or from reducing substantially the amount of products processed in the United States from cotton. The current export subsidy rate is 8 1/2 cents per pound. Although section 22 is designed primarily to protect programs of the Department of Agriculture, the imposition of the import fee would tend to equalize the prices paid by foreign mills for raw cotton with those paid by domestic mills as far as competition of foreign goods in the domestic market is concerned. Therefore, the fee not only would tend to protect the Department's programs, but would also afford some protection to the domestic textile industry in line with the fourth point of the President's seven-point Program announced in May 1961.

Cotton Textile Imports in 1961

From data for the first 8 months of 1961, it is evident that cotton textile imports had fallen off about 30 percent from the alltime highs of 1960. Much of this decline was probably attributable to the recession in the United States. This falling off points up the dependence of imports upon the general well-being of the economy. A disproportionate share of the reduction seems to be in cotton fabrics and mill-finished items, such as pillow cases, dish towels, handkerchiefs, and table damasks. Knit goods imports appear not to have sustained the same degree of reduction as other types of cotton goods. The largest relative decreases -- about 70 percent or more from the 1960 levels -- have been sustained by Egypt, India, South Korea, and Spain. Imports from Hong Kong and Portugal dropped about 40 percent. In contrast, it is estimated that Japanese shipments dropped only 10 percent from 1960 levels. This would seem to indicate the more enduring nature of U. S. textile trade with Japan compared to U.S. trade with the newer supplying countries.

Possible Future Developments

In view of the many complications yet unresolved that are presently under consideration and that are certain to affect the long-term trend of U. S. foreign trade in cotton textiles, forecasting in this field in fraught with danger. It is fairly certain, however, that the strength of the domestic market is of overriding importance to the expansion or contraction of textile imports. Also of great significance is the future price relationship between domestic and imported goods in the U. S. market. This price relationship as it presently exists could be affected by a number of factors, including changes in tariff structures or other import fees, and increased costs in the newer producing countries. The Tariff Commission and the President, through their disposition of the Section 22 action, and the American consumer, through his purchases, will all write a part of this history. Unless political considerations dictate otherwise, a large volume of imports will flow into this country as long as consumers are willing to buy them.

Some of the actions of the U. S. Government to date may have provided clues to the future. The basic principles and objectives of both the short-term and the long-term multilateral arrangements set the goal of dealing with trade problems "in such a way as to provide growing export opportunities, but in a reasonable and orderly manner." It should also be remembered that the new bilateral agreement with Japan allows for increases over the previous quotas, although the Japanese have expressed considerable concern over their ability to fill this quota in view of the number of individual subquotas that were established within the total. From these two negotiated positions, it would appear that increased U. S. imports might logically be expected to follow if textile demand remains at a high level.

In addition, however, the way in which the United States deals with the complex problem of its cotton textile imports will undoubtedly be influenced by the direction that its foreign trade policy takes as a result of the scheduled expiration of the Trade Agreements Act in mid-1962 and the rapid development of larger trading communities abroad.

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Growth Through Agricultural Progress